Supreme Court, U.S.
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No. 00-62

IN THE

Supreme Court of the United States

CSU, L.L.C.,

Petitioner,

v.

XEROX CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

1. Whether the owner of a patent or copyright violates the antitrust laws or commits misuse when it unilaterally exercises the right to exclude others from use of its inventions afforded by the Patent Act or Copyright Act.

2. Whether the owner of a patent or copyright violates the antitrust laws or commits misuse when it charges a price for its inventions that a prospective buyer deems "exorbitant."

STATEMENT PURSUANT TO RULE 29.6

Respondent Xerox Corporation has no parent company. State Street Corporation, through its State Street Bank & Trust subsidiary, owns more than 10% of Xerox's stock as trustee for various Xerox employee benefit plans.

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Respondent Xerox Corporation respectfully opposes the petition for writ of certiorari. CSU, the Petitioner, seeks to recover treble damages under the antitrust laws and deny Xerox the right to enforce its patents and copyrights because Xerox has done precisely what the Patent Act and Copyright Act authorized it to do: Xerox refused to share its inventions with its competitors from 1984 until 1994, and after 1994 Xerox licensed them at rates that Petitioner has viewed as "exorbitant." The District Court properly rejected Petitioner's invitation to destroy the system of incentives created by this nation's intellectual property laws, and the District Court's decision was affirmed in a unanimous opinion written by the Chief Judge of the Court of Appeals for the Federal Circuit.

The decision below was compelled by nearly a century of precedent from this Court and by the text and legislative history of the Patent Act. Six of the seven courts of appeal that have addressed the question have rejected antitrust liability or a finding of misuse based on a unilateral refusal to license intellectual property, and no court has *ever* found an antitrust violation or misuse based on "exorbitant" pricing of intellectual property. The District Court decision affirmed by the Federal Circuit was lauded as "indisputably correct" and "compelled by the explicit language of the Patent Act" by the leading treatise on antitrust law.

Petitioner's argument, in contrast, is based upon a serious misreading of this Court's precedent and upon a single aberrant opinion of the Court of Appeals for the Ninth Circuit. Because the Federal Circuit's opinion is consistent with the law set forth by this Court, and because the decision of the Federal Circuit actually *increases* the uniformity of the law, the Petition presents no question worthy of certiorari. Alternatively, if the Court believes that the Ninth Circuit's opinion creates an intolerable conflict, Xerox respectfully suggests that the opinion below should be summarily affirmed.

STATEMENT OF THE CASE

A. *Factual Background*

1. The parties. Xerox invents, manufactures, sells, and services document processing equipment, including photocopiers and laser printers, and the parts for those products. It is one of our nation's greatest innovators. Xerox's scientists, engineers, and technicians were awarded more than 900 patents in 1999.

Petitioner CSU is an independent service organization ("ISO") that services copiers and printers manufactured by Xerox. Started and staffed by former Xerox employees who brought with them confidential Xerox customer information, CSU has built its business upon a base that includes parts, manuals, software, and trade secrets that CSU's employees and others stole from Xerox. Ct. App. J.A. 650-52, 661, 670-71, 697, 699-700, 755-59, 761, 850, 854-56, 881-82. CSU's service technicians utilized infringing repair parts and, until Xerox obtained preliminary injunctive relief in the District Court, relied on pirated copies of Xerox's manuals and diagnostic software. *Id.* at 662, 665-76, 689-91, 693-749, 750-51. The District Court found that CSU decided to "construct its business around its infringement" of Xerox's intellectual property rights by "continuing to thumb its nose at the requirements of the Copyright Act." *Id.* at 192-193.

2. Xerox's "Parts Policy." In 1984, Xerox unilaterally determined that it would sell parts to authorized resellers and service providers and to end users of Xerox photocopiers and printers, but that it would not sell parts to its competitors. End users remained free to supply the parts they purchased to any service provider, including ISOs. The 1984 policy applied only on a *prospective* basis because it applied only to parts on recently introduced equipment. Xerox recognized that "this new

policy w[ould] not change any existing relationships with third party service organizations, since the limitations on sale apply only to recently introduced products on which we have not established a relationship on sale of parts." Ct. App. J.A. 477-478.

Xerox's policy was reiterated in 1987 and 1989. Ct. App. J.A. 479-481, 406-408. These new policies simply restated the fundamental principle underlying Xerox's prior parts policy; Xerox's policy was "to deal with ISOs fairly while recognizing that they are our competitors." *Id.* at 406. Although Xerox would not sell parts directly to ISOs, end users were always free to purchase parts for use by an ISO servicing their equipment:

> End-users who choose to have their Xerox equipment serviced by ISOs, as well as ISOs who qualify as [end] users of Xerox equipment, may obtain spare parts and other generally available resources from Xerox in quantities reasonably necessary to support their needs as [end] users and on the same terms and conditions offered to other [end] users. Such [end] users are not considered "disfavored" customers in any sense, and their orders receive the same level of attention as do those from [end] users who choose Xerox service.

Id. at 407. Thus, there was no agreement to deny ISOs access to parts, merely Xerox's unilateral selection of its customers.

Xerox's internal documents did not justify its refusal to sell parts by reference to the fact that some of its parts were patented. Ct. App. J.A. 588-89. With regard to its copyrighted and patented diagnostic software, however, there is no dispute that Xerox's refusal to license was based on its desire to exercise its "intellectual property" rights. *Id.* at 520.

In 1994, as part of a settlement of litigation, Xerox changed its parts policy. Xerox agreed to sell parts directly to ISOs (including providing them with quantity discounts) and to license diagnostic software to copier and printer end users, who could utilize ISOs as their agents to order and use the software. Ct. App. J.A. 409-445. Since 1994, Xerox has not refused to sell parts or license diagnostic software. Nor, despite Petitioner's unsupported claim (Petition at 8), has Xerox discriminated against ISOs in pricing or other terms of sale. Rather, "CSU's only evidence of price discrimination is a contract between the Navy and Xerox, which does not appear to be comparable to a contract between CSU and Xerox." App. 75a. This contract provides the U.S. Navy with special pricing on parts for use only when its ships are at sea — when neither Xerox nor any of its competitors can provide service. Ct. App. J.A. 890-92. Thus, with the exception of the Navy — which is neither a potential customer nor a potential competitor of CSU (or anyone else) — all ISOs and all self-servicers pay the same prices for parts and receive the same quantity discounts. *Id.*

3. Xerox's inventions and works and its intellectual property rights. Many of the key parts used in Xerox's photocopiers and laser printers are protected by Xerox patents. Ct. App. J.A. 796-804. These patents disclose inventions that provide a competitive advantage in the service of copiers and printers. *See, e.g.*, Ct. App. J.A. 318 (Xerox Patent No. 4,149,797, noting that the invention provides the advantage of "less down-time required for replacing pressure rolls"); *id.* at 333 (Xerox Patent No. 4,196,256, noting that the invention is desirable because it "is expensive to . . . install fuser rolls"); *id.* at 364 (Xerox Patent No. 4,258,258, noting that "a major advantage of the present invention resides in the fact that the inserts are easily and economically replaceable if they become damaged"). CSU admitted deliberate infringement of these and other patents. App. 101a-102a.

Xerox has also invented highly sophisticated diagnostic software used to anticipate and identify faults in copiers and printers and to repair those problems. This software is protected by patents and by valid, registered copyrights. App. 16a-17a. CSU knowingly infringed Xerox's copyrights in this software by obtaining disks stolen from Xerox, reproducing the disks and distributing them to the various CSU offices, and using the disks to install upgraded software on the copiers CSU serviced, as well as by using the software installed on the copiers. Ct. App. J.A. 665-77, 701-749. CSU's Rule 30(b)(6) corporate designee testified that he believed CSU's conduct was illegal. *Id.* at 695, 703.

CSU conceded in the District Court that it could not show any antitrust injury from Xerox's refusal to sell *unpatented* parts, and that its alleged damages were attributable to Xerox's refusal to sell patented parts, copyrighted manuals, and patented and copyrighted diagnostic software. App. 16a.

B. *The Proceedings Below*

1. The District Court. CSU filed suit against Xerox in 1994, asserting that Xerox's refusal before 1994 to sell parts and license software and its current pricing of parts and software constituted unlawful monopolization under Section 2 of the Sherman Act, 15 U.S.C. § 2. Xerox counterclaimed for patent infringement, copyright infringement, trademark infringement, tortious conversion, and theft of trade secrets.

The District Court initially denied Xerox's motion for summary judgment on CSU's antitrust claims, App. 97a-124a. The District Court thereafter recognized that its decision was based "on very tenuous grounds" and would create "chaos," and it reconsidered its earlier opinion and granted summary judgment to Xerox. *See* App. 56a–77a. The District Court rejected CSU's contention that Xerox's right to exercise

intellectual property rights was limited to what CSU claimed was a single antitrust market. It similarly rejected CSU's claim that Xerox could face antitrust liability for leveraging its alleged parts and software "monopolies" into monopolies in alleged markets for the service of Xerox copiers and printers based on nothing more than refusing to sell patented parts and license copyrighted software. Citing precedent from this Court and the Court of Appeals for the Federal Circuit, the District Court held that Xerox could exercise its rights under the Patent Act and Copyright Act by refusing to share its inventions with its competitors, regardless of the number of antitrust markets impacted by the refusal to license. App. 69a. The District Court recognized that if it "held otherwise, then a patent holder rarely could refuse to license his product without fear that he had not properly defined the relevant antitrust market or considered how the relevant market may be defined in the future." App. 70a. The leading treatise on antitrust law characterized the District Court's decision as "indisputably correct." Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 704.1, at 220 (2000 Supp.).

The District Court subsequently rejected CSU's motion for reconsideration, noting that the caselaw "lends little support to CSU's position." App. 47a. Although the District Court found only "limited authority supporting CSU's position," App. 53a, it certified its decision for interlocutory appeal to the Federal Circuit pursuant to 28 U.S.C. § 1292. After noting that § 1292 authorizes interlocutory appeals only where there is "substantial ground for difference of opinion," the Federal Circuit refused to accept the appeal. *CSU Holdings, Inc. v. Xerox Corp.*, No. 523, 1997 WL 632785 (Fed. Cir. Sept. 8, 1997).

CSU moved yet again for reconsideration by the District Court, relying primarily on the Ninth Circuit's decision in *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997), *cert. denied*, 523 U.S. 1094 (1998), in which the court held that although intellectual property rights provide a "presumptively valid business justification" for a refusal to

deal, the justification can be "rebutted by evidence of pretext." *Id.* at 1218-19. Noting that the Ninth Circuit admitted that it could "find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright," 125 F.3d at 1216, the District Court rejected the Ninth Circuit's departure from precedent. App. 32a. Rather, citing the Patent Act, decisions of this Court, and several opinions from other courts of appeal, the District Court held that a "patent holder's right to exclude others from practicing an invention is surely within the limits of the patent monopoly as Congress specifically authorizes such conduct in the patent statute." App. 31a. The District Court also rejected the Ninth Circuit's unprecedented inquiry into the intellectual property owner's subjective intent underlying a refusal to license. Again relying upon precedent from this Court and several courts of appeal, the District Court held that a "patent holder's intent in exercising its exclusionary power is irrelevant because the right to exclude competitors from using an invention is expressly authorized by law." App. 38a.

After trial on Xerox's copyright infringement counterclaims, in which the District Court awarded Xerox damages in excess of $1 million plus attorneys' fees, *see In re Independent Serv. Orgs. Antitrust Litig.*, 23 F. Supp. 2d 1242 (D. Kan. 1998), the District Court directed entry of final judgment in favor of Xerox. App. 15a.[1]

2. The Court of Appeals. The Court of Appeals for the Federal Circuit, in an opinion by Chief Judge Mayer, affirmed the District Court's decision in all respects. The Federal Circuit concluded that the Ninth Circuit's opinion in *Image Technical*

1. Final judgment was entered against CSU on its antitrust claims, and in favor of Xerox on its copyright infringement counterclaims. The District Court directed entry of judgment of liability on Xerox's patent infringement counterclaims, reserving the issues of willful infringement and damages for trial after appeal of that judgment as authorized by 28 U.S.C. § 1292(c)(2). App. 19a.

was a "significant departure" from precedent. App. 13a. Following a discussion of its own and this Court's precedent, as well as the text of the Patent Act and the Department of Justice and Federal Trade Commission *Antitrust Guidelines for the Licensing of Intellectual Property*, the Federal Circuit held that absent tying, sham litigation, or fraud in the Patent and Trademark Office, a patentee acting unilaterally may "enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws." App. 10a. Hence, it concluded, "Xerox was under no obligation to sell or license its patented parts and did not violate the antitrust laws by refusing to do so." App. 11a. The Federal Circuit similarly held that "Xerox's refusal to sell or license its copyrighted works was squarely within the rights granted by Congress to the copyright holder and did not constitute a violation of the antitrust laws." App. 14a.

CSU's petition for rehearing and rehearing en banc was denied on April 13, 2000. App. 125a.

REASONS FOR DENYING THE WRIT

I. THE FEDERAL CIRCUIT'S REJECTION OF ANTITRUST LIABILITY AND MISUSE BASED ON A UNILATERAL REFUSAL TO LICENSE IS CONSISTENT WITH THIS COURT'S PRECEDENT AND COMPELLED BY THE PATENT ACT.

A. Numerous Decisions Of This Court Recognize That An Owner Of Intellectual Property Need Not License Its Inventions And Works To Its Competitors.

Petitioner's antitrust claims and misuse defense for the period before 1994 are based on Xerox's unilateral refusal to sell or license its intellectual property. This Court has

consistently and repeatedly held, however, that an intellectual property owner need not license rights to its inventions. The "essence" of the patent grant is the "right to exclude others from profiting by the patented invention," *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980), and the "heart of [the patentee's] legal monopoly" is the "right to invoke the State's power to prevent others from utilizing his discovery without his consent." *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969).

There is no ambiguity in the law set forth by this Court; the law has been clear since this Court declared almost one hundred years ago that exclusion of competitors is "the very essence of the right conferred by the patent." *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908). *See also Hartford-Empire Co. v. United States*, 323 U.S. 386, 432 (1945) ("A patent owner is not in the position of a quasi-trustee for the public or under any obligation to see that the public acquires the free right to use the invention. He has no obligation either to use it or to grant its use to others."); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 457 (1940) (holding that a patent owner has a legal "right to refuse to sell . . . [its] patented products"); *United States v. United Shoe Mach. Co.*, 247 U.S. 32, 57 (1918) (holding that patentee has "the right to exclude others from the use of the invention, absolutely or on the terms the patentee chooses to impose").

This Court has similarly held that a copyright owner need not sell copyrighted materials or license rights under its copyright, including the right to use (and hence reproduce within the terms of the Copyright Act) computer software. "[N]othing in the copyright statutes would prevent an author from hoarding all of his works during the term of the copyright. In fact, this Court has held that a copyright owner has the capacity arbitrarily to refuse to license one who seeks to exploit the work." *Stewart v. Abend*, 495 U.S. 207, 228-29 (1990). Thus, "[t]he owner of a copyright, if he pleases, may refrain from vending or licensing

and content himself with simply exercising the right to exclude others from using his property." *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932).

It is axiomatic that Xerox's exercise of a right afforded by the patent grant — the right to exclude CSU from use of Xerox's patented parts and software — cannot constitute an antitrust violation. "The patent laws which give a 17-year monopoly on 'making, using, or selling the invention' are *in pari materia* with the antitrust laws and modify them *pro tanto*." *Simpson v. Union Oil Co. of Cal.*, 377 U.S. 13, 24 (1964). Accordingly, a patentee's exercise of its right "to exclude others from the use of the invention . . . is not an offense against the Anti-Trust Act." *United States v. United Shoe Mach. Co.*, 247 U.S. at 57. *See also United States v. Line Material Co.*, 333 U.S. 287, 309 (1948) ("The Sherman Act was enacted to prevent restraints of commerce but has been interpreted as recognizing that patent grants were an exception."); *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 816 (1945) ("[A] patent is an exception to the general rule against monopolies and to the right to access to a free and open market.").[2]

These decisions are consistent with this Court's rule, expressed in several cases, that conduct expressly authorized

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2. Although this Court has not directly addressed the antitrust implications of a refusal to license a copyrighted work, it has recognized "the historic kinship between patent law and copyright law." *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984). There is thus no basis for treating a unilateral refusal to license a copyright differently from a unilateral refusal to license a patent. *See* William C. Holmes, *Intellectual Property and Antitrust Law* § 11.02, at 11-14 (1997) (the logic of patent cases "would apply with equal force to a unilateral refusal to grant a copyright license."); Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.1, 1995 WL 229332, *2 ("[T]he governing antitrust principles are the same" for patents and copyrights.).

by law cannot violate the antitrust laws, regardless of the defendant's intent. *See, e.g., Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 56-60 (1993) (filing of meritorious lawsuit cannot serve as foundation for antitrust liability regardless of defendant's motive because conduct is immunized by the First Amendment); *Federal Trade Comm'n v. Ticor Title Ins. Co.*, 504 U.S. 621, 633-34 (1992) (price fixing authorized by state regulators is not an antitrust violation); *United States v. Rock Royal Co-op.*, 307 U.S. 533, 560 (1939) (holding that defendants' activity authorized by milk cooperative statute did not violate the antitrust laws even "[i]f ulterior motives of corporate aggrandizement stimulated their activities . . ." and even where "the effect would be to give cooperatives a monopoly of the market"); *Keogh v. Chicago & N.W. Ry. Co.*, 260 U.S. 156, 161-63 (1922) (under "filed rate doctrine" a plaintiff may not recover antitrust damages where the prices it paid were approved by a regulatory body).

Petitioner argues that all of these cases are somehow irrelevant because the effect of Xerox's refusal to license is not limited to a single antitrust market. *See, e.g.*, Pet. at 22, 27 n.13. Patents, however, claim inventions — not antitrust markets — and afford a right to exclude from *any* use of the claimed invention, regardless of the antitrust market in which the use occurs. *See Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 23 (1997) (noting "this Court's numerous holdings that *it is the claim that defines the invention and . . . the limits of the patent monopoly*") (emphasis added). As the District Court held, "[t]he reward for a patented invention is the right to exploit the entire field of the 'invention,' not the right to exploit the single most analogous antitrust market." App. 34a. Professors Areeda and Hovenkamp quoted this statement by the District Court and noted that it "reflected a more realistic view of the relationship between a patent and the markets in which it creates power [than the Ninth Circuit's decision in *Image*

Technical]." Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 704.1, at 225 (2000 Supp.).[3]

When Xerox refused to sell patented parts or license patented and copyrighted diagnostic software, its conduct was limited to the patented inventions and copyrighted works themselves; it simply refused to sell or license its intellectual property to its competitors. By doing nothing more than excluding others from using the inventions claimed in its patents and the works identified in copyrights, Xerox has done nothing to extend the "physical or temporal scope" of the patent grant. *Blonder-Tongue Lab., Inc. v. University of Ill. Found.*, 402 U.S. 313, 343 (1971). As such, Xerox's exercise of the "exclusive right to [its] writings and discoveries," U.S. Const. art. I, § 8, cl. 8, cannot violate the antitrust laws.

Petitioner relies upon a single inapposite footnote in this Court's decision in *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 479 n.29 (1992). We submit that this footnote, which states that "power gained through some natural

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3. Similarly, Professors Areeda and Hovenkamp have noted:

> [T]he idea that a patent cannot be enforced if enforcement creates a monopoly in a different product is inconsistent with the doctrine of contributory infringement, as developed by the Supreme Court's *Dawson* [*Chem. Co. v. Rohm & Haas*, 448 U.S. 176 (1980),] decision. . . . The Court explicitly read the doctrine of contributory infringement broadly to permit a patentee to enforce its rights in a process patent even when the effect was to create a monopoly in an unpatented product to which the process patent applied, notwithstanding the infringement defendant's claim that the impact was to extend the patentee's monopoly from the patented process to the unpatented product.

Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 704.1, at 224 (2000 Supp.).

and legal advantage such as a patent, copyright, or business acumen can give rise to liability if a seller exploits his dominant position in one market to expand his empire into the next," 504 U.S. at 479 n.29 (internal quotation omitted), has no application to this case, which involves a unilateral refusal to license intellectual property. Even the Ninth Circuit's aberrant decision on remand recognized that this Court "did not specifically address the question of antitrust liability based upon a *unilateral* refusal to deal in a *patented or copyrighted* product.") (emphasis added). *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1216 (9th Cir. 1997).

Although Kodak raised intellectual property rights as a defense after remand, the only evidence before this Court when it decided *Kodak* was that there were *no* intellectual property rights at issue. *See* Respondent's Brief at 45, *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451 (1992) (No. 90-1029), *available online at* 1991 WL 530838, at *45 ("Kodak has produced no evidence of exclusive patent rights over OEM-made parts for Kodak equipment (even though such information was sought by interrogatory).").[4] More fundamentally, footnote 29 does not address the unilateral conduct challenged in this case. Rather, it is found in this Court's discussion of the plaintiffs' tying claims under § 1 of the Sherman Act, 15 U.S.C. § 1, which addresses concerted conduct. Footnote 29's discussion of "tying in derivative aftermarkets,"

4. The rights of intellectual property owners were not discussed in the briefs or mentioned at oral argument either. *See* Transcript of Oral Argument, *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992) (No. 90-1029), *available online at* 1991 WL 636270; Petitioner's Opening Brief, *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992) (No. 90-1029), *available online at* 1991 WL 530837; Respondent's Brief, *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992) (No. 90-1029), *available online at* 1991 WL 530838; Petitioner's Reply Brief, *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992) (No. 90-1029), *available online at* 1991 WL 530839.

504 U.S. at 480 n.29,[5] is irrelevant because there is no tying claim asserted in this case.

Xerox's refusal to license was a *unilateral* refusal to deal, and Petitioner's antitrust claims are hence based solely on § 2 of the Sherman Act, which addresses only unilateral conduct. This is a key distinction, for "[t]he difference is clear and vital between the exclusive right to use the machine, which the law gives to the inventor, and the right to use it exclusively with prescribed materials [*i.e.*, a tying arrangement]." *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 512 (1917). The concern addressed in this Court's tying cases is with the patentee who "extends *by contract* his patent monopoly to articles as respects which the law sanctions neither monopolies nor restraints of trade." *Transparent Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 644 (1947) (emphasis added). *Accord United States v. Masonite Corp.*, 316 U.S. 265, 277 (1942) ("The owner of a patent cannot extend his statutory grant by contract or agreement."). Xerox, in contrast, has not created any tying arrangements or entered any contracts that condition the sale of parts on an agreement not to use ISO service. End users were always free to purchase service from ISOs and even purchased parts from Xerox for use by CSU and other ISOs. *See* App. 4a. Xerox simply elected unilaterally to refuse to sell parts to ISOs itself.

CSU also points to *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 463 (1938). As a preliminary matter, the *Leitch* rule on contributory infringement has been overturned by statute, 35 U.S.C. § 271. As this Court recognized in *Dawson Chem. Co.*, 448 U.S. at 215, the *Leitch* rule — that the owner of a process patent has no right to exclude competition in unpatented nonstaple articles of commerce — "runs contrary to the long-settled view that the essence of a patent grant is the right to

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5. *See also* 504 U.S. at 480 n.29 (footnote is discussing "the tie here" and "Kodak's . . . tying policy.").

exclude others from profiting by the patented invention." Regardless, *Leitch* did not involve a challenge to a unilateral refusal to license of the type at issue here. Rather, the Court found that Barber's assertion of its patent on a road building process to prevent Leitch from selling unpatented construction material was an "unauthorized extension" of its process patent. Xerox does not assert here that its parts patents give it the right to prevent CSU from servicing copiers and printers, only that its patents give it the right to refuse to sell its inventions to CSU. CSU was free to obtain parts from its customers who owned Xerox equipment or to manufacture or purchase noninfringing parts. This is not an "extension" of the patent right; Xerox did precisely what the patent authorizes.

B. § 271(d) Of The Patent Act Immunizes Refusals To License Patents.

Section 271(d) of the Patent Act provides that "[n]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse *or illegal extension of the patent right* by reason of . . . having . . . (4) refused to license or use any rights to the patent." 35 U.S.C. § 271(d)(4) (emphasis added). The Federal Circuit properly recognized that this statute bars both antitrust claims and misuse defenses based on a unilateral refusal to license patented parts.

Any other reading of the statute would render the phrase "illegal extension of the patent right" a nullity, hence conflicting with the "elementary canon of construction that a statute should be interpreted so as not to render one part inoperative." *Mountain States Tel. & Tel. Co. v. Pueblo of Santa Ana*, 472 U.S. 237, 249 (1985) (internal quotation and citation omitted).[6] Thus, the

6. Moreover, the phrase, "illegal extension of the patent right" is synonymous with the test for patentee antitrust violations. *See, e.g., Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, (Cont'd)

courts have generally interpreted § 271(d) to bar antitrust claims as well as the patent misuse defense. *See, e.g., Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1362-63 (Fed. Cir. 1999); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187 (1st Cir. 1994) (§ 271(d) "may even herald the prohibition of all antitrust claims and counterclaims premised on a refusal to license a patent").[7] The Ninth Circuit's cursory conclusion that § 271(d) does not bar antitrust claims, *Image Technical Servs.*, 125 F.3d at 1214 n.7, is thus contrary to the clear weight of the caselaw. Indeed, it even conflicts with a prior decision of the Ninth Circuit itself. *See Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc.*, 616 F.2d 1133, 1143 (9th Cir. 1980) (citing § 271(d) to conclude that "[a]ttempted enforcement of a patent does not amount to a violation of the *antitrust laws*") (emphasis added).

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666 (1944) ("The fact that the patentee has the power to refuse a license does not enable him to *enlarge the monopoly of the patent* by the expedient of attaching conditions to its use.") (emphasis added).

7. A long line of district court decisions is in accord. *See, e g., Norman v. Torch, Inc.*, No. Civ. A. 91-3738, 1993 WL 149658, at *2 (E.D. La. May 4, 1993) (citing § 271(d) to dismiss antitrust claims based on enforcing patent against alleged infringers); *Polysius Corp. v. Fuller Co.*, 709 F. Supp. 560, 576 (E.D. Pa. 1989) (finding, based on § 271(d)(1), that "Congress has mandated . . . [that] plaintiffs cannot be guilty of either antitrust violations or patent misuse."); *Rohm & Haas Co. v. Dawson Chem. Co.*, 557 F. Supp. 739, 835 (S.D. Tex.) (holding that § 271 "necessarily extends into the antitrust arena" because "it would be superfluous to sanction and protect activity within one area of the law and concurrently prohibit and expose a patentee to damages by reason of another body of law"), *rev'd on other grounds sub nom. Rohm & Haas Co. v. Crystal Chem. Co.*, 722 F.2d 1556 (Fed. Cir. 1983); *Gruendler Crusher & Pulverizer Co. v. Williams Patent Crusher & Pulverizer Co.*, 496 F. Supp. 1385, 1390-91 (E.D. Mo. 1980) (citing § 271(d) to dismiss antitrust claims premised on serving infringement notice); *Universal Athletic Sales Co. v. American Gym*, 480 F. Supp. 408, 420-21 (W.D. Pa. 1979) (citing § 271(d) to dismiss antitrust claims based on filing infringement suit).

The legislative history also makes clear that Congress intended to bar antitrust claims based on refusals to license. The Department of Justice specifically objected to the provision that became § 271(d) because "its effect might be to carve out an area in which the antitrust laws would not operate. . . . The proponents of the bill indicate that such a result is contemplated in the language of section [271(d)]." *Patent Law Codification and Revision: Hearings on H.R. 376 Before Subcomm. No. 3 of the House Comm. On the Judiciary, 82nd Cong.* 207 (1951) (testimony of Wilbur L. Fugate, Antitrust Div. Dep't of Justice). When § 271(d) was amended in 1988 to add antitrust and misuse immunity for refusals to license, Representative Kastenmeier, the prime sponsor of the legislation, cited *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203-06 (2d Cir. 1981), as a basis for the statute. *See* 134 Cong. Rec. H10646, H10648 (Oct. 20, 1988). *SCM* did not involve patent claims or a misuse defense; rather, it held that Xerox could not be guilty of *antitrust* violations for unilaterally refusing to license patents for key copier parts to a competing copier equipment manufacturer.

C. The Decision Below Enhances The Uniformity Of The Caselaw.

1. Cases before the Ninth Circuit's *Image Technical* decision uniformly held that a unilateral refusal to license intellectual property could not violate the antitrust laws.

Given the depth and clarity of this Court's caselaw, it is not surprising that the Federal Circuit's rejection of antitrust liability and misuse premised on a unilateral refusal to license intellectual property is consistent with the decisions of six of the seven courts of appeal to have addressed the question. Until the Ninth Circuit's departure from precedent in *Image Technical*, *every* court of appeals to have addressed the question concluded that

antitrust liability may not be premised on an intellectual property owner's unilateral exclusion of competitors from use of its inventions — regardless of the number of antitrust markets affected.[8]

The First and Fourth Circuits have rejected claims essentially identical to those asserted by Petitioner, holding that manufacturers did not violate the antitrust laws by refusing to license their copyrighted diagnostic software to ISOs. *See Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1182 (1st Cir. 1994); *Service & Training, Inc. v. Data Gen. Corp.*, 963 F.2d 680, 690 (4th Cir. 1992).[9]

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8. Petitioners cite repeatedly to a speech by Federal Trade Commission Chairman Robert Pitofsky, but in that speech Chairman Pitofsky stated that he had "no quarrel with the fundamental rule that a patent holder has no obligation to license or sell in the first instance." Robert Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property* (June 15, 2000), <http://www.ftc.gov/speeches/pitofsky/000615speech.htm>. Rather than take issue with the *holding* of the Federal Circuit, the Chairman expressed concern with "the sweeping language" of the decision if expanded to include conditioned sales and other concerted conduct. *See id.* ("An approach that starts from the point that a patent holder does not have to sell or license to anyone, and proceeds from that unchallenged assumption to the rule that it therefore can condition its sales or licenses in any way it sees fit, (with tie-in sales as the sole antitrust exception), would be an unwise and unfortunate departure from the traditional approach in this area.").

9. Several district courts have reached the same conclusion. *See, e.g., Tricom, Inc. v. Electronic Data Sys. Corp.*, 902 F. Supp. 741, 743-44 (E.D. Mich. 1995) (dismissing antitrust claims brought by ISO based on refusal to license copyrighted diagnostic software); *Advanced Computer Serv. of Mich. v. MAI Sys. Corp.*, 845 F. Supp. 356, 368-69 (E.D. Va. 1994) (same); *Servicetrends, Inc. v. Siemens Med. Sys., Inc.*, 870 F. Supp. 1042, 1056, 1059 (N.D. Ga. 1994) (dismissing antitrust claims brought by ISO based on refusal to sell patented parts). Similarly, when the Department of Justice Challenged GE's software licensing

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The Second Circuit has rejected claims that Xerox attempted to monopolize a market for plain paper copying equipment by unilaterally refusing to license patents for some of the very same parts at issue here, holding that "Xerox's . . . refusal to license the [xerography] patents . . . was permissible under the patent laws and, therefore, did not give rise to any liability under § 2." *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1209 (2d Cir. 1981). *Accord Primetime 24 Joint Venture v. National Broadcasting Co.*, 219 F.3d 92, 99 (2d Cir. 2000) ("[O]wners of copyrights may individually refuse to deal with a party seeking a license.").

The Sixth Circuit has rejected a charge that a patentee violated the antitrust laws through "vertical integration" into a new market, holding that "[a] patent holder who lawfully acquires a patent cannot be held liable under Section 2 of the Sherman Act for maintaining the monopoly power he lawfully acquired by refusing to license the patent to others." *Miller Insituform, Inc. v. Insituform of N. Am., Inc.*, 830 F.2d 606, 609 (6th Cir. 1987). *Accord Axis, S.p.A. v. Micafil, Inc.*, 870 F.2d 1105, 1111 (6th Cir. 1989) (holding that a plaintiff allegedly injured by refusal to license patents cannot demonstrate antitrust injury).

The D.C. Circuit has rejected the argument that a refusal to license a patent constituted an unlawful attempt to leverage a process patent monopoly into a monopoly on the unpatented good itself, holding that the defendant "sought nothing beyond what the patent . . . gave it. The patent gives it the unlimited

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policies, it did *not* challenge GE's refusal to license diagnostic software to ISOs. *United States v. General Electric Co.*, 63 Fed. Reg. 40,737 (1998) (Proposed Final Judgment and Competitive Impact Statement) ("The Complaint did not allege that GE's refusal to license its intellectual property to any or all persons who might seek such licenses violated the antitrust laws.").

right to exclude others from utilizing its process." *United States v. Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122, 1129 (D.C. Cir. 1981).

The Third Circuit has rejected allegations of misuse based on a claim that a patentee was using its patents on a manufacturing process to force price increases for the unpatented product made by the process. The rejection was based on its conclusion that high license fees are "not appreciably different from a refusal to license upon any terms," which is "the essence of the patent holder's right under the patent law which rewards invention disclosure by the grant of a limited monopoly in the exploitation of the invention." *W.L. Gore & Assocs. v. Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976).

2. The Ninth Circuit's departure from precedent is unique.

Petitioner asserts that certiorari is warranted because of the sole contrary appellate opinion, *Image Technical Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997), *cert. denied*, 523 U.S. 1094 (1998). But the Ninth Circuit recognized in that case that its decision was without precedent, admitting that it could "find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright" and that "[c]ourts do not generally view a monopolist's unilateral refusal to license a patent as 'exclusionary conduct.' " *Image Technical*, 125 F.3d at 1216.[10]

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10. Indeed, the *Image Technical* decision is inconsistent with the Ninth Circuit's prior rejection of an antitrust challenge to a refusal to license patents. *See United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981) (holding that "[t]he right to . . . refuse to license at all is the untrammeled right of the patentee") (internal citation and quotation omitted). The Ninth Circuit has also previously rejected claims that a manufacturer's refusal to license diagnostic software to service competitors was an improper attempt to leverage

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The Ninth Circuit justified its departure from precedent on its conclusion that the defendant's invocation of its intellectual property rights was "pretextual." But precedent from this Court and the courts of appeal makes clear that an intellectual property owner's subjective intent is irrelevant when evaluating the exercise of rights granted by the Patent Act or Copyright Act. *See Professional Real Estate Investors*, 508 U.S. at 64 (holding that "to condition a copyright upon a demonstrated lack of anticompetitive intent would upset the notion of copyright as a 'limited grant' of 'monopoly privileges' "); *Stewart v. Abend*, 495 U.S. at 228-29 (holding that copyright owner may "arbitrarily . . . refuse to license one who seeks to exploit the work"); *Data General*, 36 F.3d at 1189 (criticizing any "search for an overriding 'antisocial' motivation" behind refusal to license as "unilluminating"). *Accord* 8 Ernest Lipscomb, *Walker on Patents* § 28:12 (1989) ("Owners of patents may license or refuse to license as they choose, and whether that refusal to license is based on a commendable or odious reason is immaterial.").

The Ninth Circuit's much-criticized decision[11] stands as the solitary example of a departure from this Court's precedent.

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the copyright to obtain a service monopoly and hence constituted copyright misuse. *See Triad Sys. Corp. v. Southeastern Express Co.*, 64 F.3d 1330, 1337 (9th Cir. 1995).

11. *See, e.g.*, Michael H. Kauffman, *Image Technical Services, Inc. v. Eastman Kodak Co.: Taking One Step Forward and Two Steps Back in Reconciling Intellectual Property Rights and Antitrust Liability*, 34 Wake Forest L. Rev. 471, 525-26 (1999) (Ninth Circuit's decision "completely obliterated" rights granted to patent holders); Tonya Trumm, *Comment, Expansion of the Compulsory Licensing Doctrine? Image Technical Services, Inc. v. Eastman Kodak Co.*, 24 J. Corp. L. 157, 167 (1998) ("[T]he Ninth Circuit's subjective intent standard, exposing patentees to litigation for a determination of intent in refusals to license, will detrimentally affect the patent system and patent

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As one treatise has noted, "*Image Tech. v. Eastman Kodak* is a very troubling decision for it appears to muddy what heretofore have been relatively clear rights of a patentee." 4 Julian O. von Kalinowski, *Antitrust Laws and Trade Regulation* § 74.01(1), at 6 (2d ed. 1999). *See also* Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 704.1, at 218 (2000 Supp.) (noting that before *Image Technical*, the courts had "uniformly held" that a patentee who unilaterally refused to license its patents "has not violated the antitrust laws, and thus cannot be compelled by § 2 of the Sherman Act to license these patents to competitors."); 2 A.B.A. Section of Antitrust Law, *Antitrust Law Developments* 972 (4th ed. 1997) (treatise published before the Ninth Circuit's decision noting that it had "long been held that a unilateral refusal to use or license a patent or copyright cannot form the basis of an antitrust claim"); A.B.A. Section of Antitrust Law, *The 1995 Federal Antitrust Guidelines for the Licensing of Intellectual Property: Commentary and Text* 46 (1996) (treatise published before the Ninth Circuit's decision noting that "[e]ven where the intellectual property right is alleged to be an 'essential facility,' the courts of appeal considering the issue have held that the owner of intellectual property does not violate the antitrust laws by unilaterally refusing to license a competitor or potential competitor").

The only decision following the Ninth Circuit's *Image Technical* decision to conclude that a unilateral refusal to license intellectual property was unlawful was reversed by the Court of Appeals for the Federal Circuit before its decision in this case. *See Intergraph Corp. v. Intel Corp.*, 3 F. Supp. 2d

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holders."); Brian F. Ladenburg, *Note, Unilateral Refusals to Deal in Intellectual Property After Image Technical Services, Inc. v. Eastman Kodak Co.*, 73 Wash. L. Rev. 1079, 1103 (1998) ("*Kodak II's* weakening of the exclusionary powers of the intellectual property laws with an intent-based test makes one wonder whether possession of intellectual property in aftermarket products is an asset or a liability.").

1255, 1278 (N.D. Ala. 1998), *vacated*, 195 F.3d 1346, 1362 (Fed. Cir. 1999).[12]

Even the Ninth Circuit has resolved the question presented in the Petition with a result contrary to the decision below only once. Xerox respectfully submits that the Ninth Circuit's single aberrant decision should not suffice to justify a grant of certiorari in this case.

3. The Federal Circuit's decision unifies the caselaw.

Because of the unique position of the Court of Appeals for the Federal Circuit as the intermediate appellate court with exclusive jurisdiction in cases involving patent claims, 28 U.S.C. § 1295(a), the decision below will serve to *unify* the caselaw. Given the Federal Circuit's decision here and the state of the law in other circuits, only district courts in the Ninth Circuit in cases that do not involve patent claims will face appellate precedent that is at odds with this Court's decisions.

Indeed, this Court has also suggested that "[b]ecause of the unique character of the Federal Circuit, its conclusions are entitled to special deference by this Court." *United States v. Fausto*, 484 U.S. 439, 464 n.11 (1988).

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12. Petitioner cites (Pet. at 17-18 n.7) the district court's opinion in *United States v. Microsoft Corp.*, 87 F. Supp. 2d 30, 40-41 (D.D.C. 2000), but that case dealt not with unilateral conduct, but rather with the "contractual (or technological) restrictions [Microsoft] placed on [its licensees]." *Id.* at 40. Moreover, unlike this case, which deals with conduct at the core of an intellectual property owner's statutory rights — the right to exclude others from using its inventions — the Microsoft case addressed restrictions that did not "derive from any of the enumerated rights explicitly granted to a copyright holder under the Copyright Act." *Id.*

II. NO COURT HAS *EVER* HELD THAT AN INTELLECTUAL PROPERTY OWNER VIOLATES THE ANTITRUST LAWS OR COMMITS MISUSE BY CHARGING HIGH PRICES FOR ITS INVENTIONS.

After the 1994 settlement of litigation described at p. 4, *supra*, Xerox began to sell its patented parts and license its copyrighted software to CSU, but CSU nonetheless claims that Xerox violated the antitrust laws by charging "exorbitant" prices for its intellectual property. Moreover, because Xerox has sought patent and copyright infringement damages only for the period after 1994, CSU's entire misuse defense can properly be based solely on Xerox's pricing of its intellectual property. *See generally United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465 (1957) (misuse is purged by abandonment of practice and the passage of time). In the words of Petitioner's chairman, "We would ask a Court to say that a 200 percent to 300 percent markup over an objective standard with respect to cost is a sufficient margin for anybody, including ladies' dresses." Ct. App. J.A. 786.

Because the Federal Circuit found that Xerox had no obligation to license its intellectual property, it implicitly concluded that Xerox did not violate the law by charging high prices for rights to use its inventions. CSU seeks review of this conclusion. *See* Pet. at 11-12 n.3. CSU relegates its request for review of this result to a footnote, presumably because it recognizes that no court has *ever* found an antitrust violation or misuse based on an intellectual property owner's pricing of its inventions.[13] This Court has been crystal clear on the subject.

13. In *American Photocopy Equip. Co. v. Rovico, Inc.*, 359 F.2d 745 (7th Cir. 1966), a court of appeals reversed preliminary injunctive relief because the patentee acted "inequitably" by charging high royalties. The same court of appeals, however, rejected the misuse defense on appeal after final judgment. *American Photocopy Equip.*

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"A patent empowers the owner to extract royalties as high as he can negotiate with the leverage of that monopoly." *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964). As the leading patent law treatise states, a patent owner "may set a price for a patented product or the royalty rate in a license at whatever level he feels will maximize the return on his lawful patent monopoly." 6 Donald F. Chisum, *Chisum on Patents* § 19.04[3] at 19-334-336 (1997). Similarly, in *Stewart v. Abend*, 495 U.S. 207, 229 (1990), this Court recognized that a copyright holder's right to charge an allegedly "excessive" price "was contemplated by Congress and is consistent with the goals of the Copyright Act." Indeed, the Court refused to find it unlawful for the copyright holder to demand license fees that "are so exorbitant that a negotiated economic accommodation will be impossible." *Id.* at 228 (internal quotation omitted).

To the extent that Xerox's intellectual property rights convey "monopolies," they are lawful monopolies over the inventions and works (*i.e.*, parts and software) claimed in its patents and copyrights. There is no allegation that Xerox has obtained its patents and copyrights through anything other than "superior skill, foresight, and industry." *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 430 (2d Cir. 1945). The antitrust laws impose no limit on the price that such a lawful monopolist may charge.[14] Even the Ninth Circuit in *Image Technical* — relied

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Co. v. Rovico, Inc., 384 F.2d 813, 817 (7th Cir. 1967). Regardless, the case has never been followed and "is of doubtful precedential value." 6 Donald F. Chisum, *Chisum on Patents* § 19.04[3] at 19-337 (1997).

14. There is no confusion on this point among the appellate courts. *See, e.g., Blue Cross & Blue Shield United of Wis. v. Marshfield Clinic*, 65 F.3d 1406, 1413 (7th Cir. 1995) (noting that "the antitrust laws are not a price-control statute or a public-utility or common-carrier rate regulation statute"); *Kartell v. Blue Shield of Mass., Inc.*, 749 F.2d 922, 927 (1st Cir. 1984) (a monopolist "is free to exploit whatever market

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upon so heavily by CSU elsewhere — rejected "utility-like regulation of prices" as "beyond [the court's] function" and recognized that "Kodak is entitled to monopoly prices on its patented and copyrighted parts." *Image Technical*, 125 F.3d at 1225.

Other than CSU's proffer of an "expert" who admitted that he did nothing more than "pick[] a number," Ct. App. J.A. 807-8, CSU has never proposed a methodology for determining when an "exorbitant" price violates the antitrust laws or constitutes misuse. It certainly cannot find any such methodology in the caselaw from this or any other Court. *See generally* III Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 720b at 207 (1996) ("Antitrust courts have rightly resisted undertaking the heavy, continuous, and unguided burden of supervising the economic performance of business firms.").

None of the factors outlined in S. Ct. R. 10 is present with regard to the second question presented — whether the owner of a patent or copyright violates the antitrust laws or commits misuse when it charges an "exorbitant price" for its inventions.

(Cont'd)
power it may possess when that exploitation takes the form of charging uncompetitive prices"); *Continental Cablevision of Ohio, Inc. v. American Elec. Power*, 715 F.2d 1115, 1124 (6th Cir. 1983) (high prices are not unlawful even for monopolist); *Berkey Photo, Inc. v. Eastman Kodak Co.*, 603 F.2d 263, 275 n.12 (2d Cir. 1979) ("high prices, far from damaging competition, invite new competitors into the monopolized market").

CONCLUSION

Petitioner's claims of dire consequences should the decision below be permitted to stand are baseless. Indeed, the right of an intellectual property owner to refuse to share its inventions with its competitors without fear of antitrust treble damages or a finding of misuse has been the law of the land for almost one hundred years — the period of greatest prosperity that man has ever known. There is no reason to change the law now, and no question worthy of certiorari is presented by the Petition.

Respectfully submitted,

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